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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE arrival of Spring and seasonal expansion of outdoor activities has effected some improvement in the industrial and business situation, but has not accomplished the complete restoration of normal conditions which at the beginning of the year was hoped for by this time. The slowness of recovery confirms the view that the stock market crash was not the main cause of the industrial disturbance, but only one feature of it, although one which has contributed substantially to the general confusion and demoralization which followed. No doubt the stock market boom with the resulting high interest rates and displacement of funds had more to do fundamentally with the upset of the world's equilibrium than the collapse of the boom, but while the latter gave relief from a tightening credit situation which was threatening grave consequences, the violence of the shock was an unsettling influence. It disturbed a good many inflated and more or less artificial situations, with the result that instead of giving an immediate stimulus to general business the chief effect to this time has been a worldwide accumulation of idle funds.

It was said at first that the industrial depression was not likely to last long, for the reason that commodity prices had not been inflated and commodity stocks were not large, thus rendering unnecessary a protracted process of deflation and exhaustion to clear the markets. This assumption is proven not to have been altogether well founded. Although on the average the decline of prices has been nothing like as severe as in 1920-21, and it is true that as a rule merchandise stocks and manufacturers' inventories were not excessive, it has been suddenly realized that the production of most of the important raw materials and crude products is over-developed, that prices for such commodities have undergone a general decline and that world trade has been seriously affected thereby.

In this country we are so much more concerned with domestic trade that we are not quick to take account of developments affecting the buying power of other peoples, but our foreign trade is large enough to soon feel them and reflect them in domestic conditions. The 1929 crops of this country had passed for the greater part out of producers' hands before the declines affecting them occurred, and where this was the case the losses have fallen mainly upon dealers. Nevertheless, they have been losses affecting the general prosperity, and in turn the decline of industrial activity in this country has reduced our imports and thus caused unfavorable reaction upon foreign countries.

The Economic Equilibrium

Secretary Hoover's Committee upon "Recent Economic Changes" appointed several years ago and which made its report public last year, laid emphasis upon the necessity of maintaining the economic equilibrium, by which is meant the state of balanced relations between the industries which is necessary to the free and ready exchange of products and services. This is recognized by economists as the fundamental condition of prosperity.

What is giving more concern everywhere than anything else is the price situation, which presents a problem arising from over-development of production in the principal commodities of world trade. The explanation is to be found, partly in the extraordinary stimulus given to the production of such commodities outside of Europe by the war, partly to progress made in the science and methods of production since the war, and partly to efforts on the part of governments to protect domestic industries and control prices with that end in view.

The increased production of sugar, wheat and wool is directly traceable to high prices for these products during and after the war. Canada was prepared for a large expansion of acreage in wheat and high prices supplied the incentive. Australia and Argentina increased their acreage largely and in the United States an important increase has occurred in the plains states, formerly thought unsuited to farming operations. The increasing carry-

overs from year to year have borne testimony to over-production. In the case of all the grains, pre-war calculations upon production costs are set aside by the development of improved machinery, which is being rapidly introduced in all grain-growing countries. The reduction of costs is accomplished by enabling an individual farmer to cultivate more acres, which in countries where land is abundant means a rapid expansion of acreage and larger crops.

In the case of sugar, production was first expanded in the cane-raising countries, stimulated by the high prices which resulted from the destruction of beet-sugar properties in the war-wrecked regions of Europe, but Europe is now producing more beet sugar than before the war. Furthermore, scientific breeding has improved the sugar-bearing qualities of cane, with the effect of substantially increasing the yield. Finally, the very low prices prevailing for sugar in world markets have induced countries which formerly were producing only part of their domestic requirements to increase their protective duties to shut out foreign competition, with the result that world production in the aggregate has been stimulated instead of diminished by low prices. The United States is now adopting this policy of giving further stimulus to home production, but the increased protection applies to the Philippines and other island dependencies as well as to the mainland, and is likely to be more effective there than here. Even under the old duties the production of the Philippines has been increased from 394,000 tons in 1923 to 750,000 tons in 1929. Domestic production is being increased by large cane sugar developments in Florida.

In this country cotton production has been increased, as in the case of wheat, by its adaptation to the cheap lands of the southern plains, but has increased also in tropical countries. The cotton goods industry under the pressure of war demands began the practice of operating with night shifts, and finding that economies were realized, has continued it, with the result that production is in excess of market demands, but the industry is unable to agree upon discontinuance of this practice. The cotton goods industry of Europe, and particularly England, is in distress because of competitive development during the war and since, in India, Japan and South America.

Limitations Upon Trade

The creation of new nations as a result of the war has caused much territory which formerly was open to trade with few or no restrictions to be closed in large degree, for the purpose of developing home industries with a view to making the new nations economically independent. Nationalistic sentiment or considerations related to fiscal policies have influenced other countries to do likewise, with the result that production for domestic consumption has been stimulated, markets have been closed to international trade and nations accustomed to export a surplus find their outlets restricted. This causes products to be sacrificed in world markets, and some internal markets are thereby affected, as, for example, the price of sugar in the United States. The restriction of imports into Russia has increased the competition in other markets.

This tendency on the part of nations to supply their own wants and also produce for export is illustrated by the state of the shipping industry. Even the dominions of Great Britain have wanted to have their own government-promoted shipping lines to carry their trade. Italy has made large expenditures to establish herself in an important position on the sea, and with creditable results. France has ambitions to have a merchant fleet second to none in quality if not in numbers, and has realized her ambition. The allies and the United States took Germany's merchant fleet away from her during and after the war; now Germany has provided herself with a new fleet approximately equal to that of the pre-war period. The result of all this fostering and subsidizing is that the business of ocean-shipping is as badly demoralized as any business in the world. Furthermore, if every nation plans to supply its own wants within itself there will be less need for shipping. The British Chamber of Shipping reports for the month of March, 1930, that its index number of freight rates was 77.56, in comparison with 100 for the year 1913, although the costs of operating ships are higher than in 1913.

Price Regulations

The disposition to regulate or support the prices of domestic products by the use of governmental credit or legislation has been seen in the attempts with rubber, coffee and sugar, not to speak of the omnibus policy of the United States, as seen in the pending tariff bill. In the case of the three products the effect has been to increase the state of over-production and the ultimate demoralization of prices. Rubber prices have been lower in recent months than ever before, the Brazilian coffee valorization has been discontinued, and within the last month the arrangement under the auspices of the Cuban government to have this year's sugar crop handled by a single seller has been abandoned upon the almost unanimous request of the parties who had petitioned for its establishment. They found that the needs of each producer were peculiar to his own circumstances, and they concluded that they preferred to handle their own production to suit themselves. Ordinarily it would appear that the Cuban

production, having access to the United States market under a duty of 20 per cent less than must be paid by any other foreign sugar, might realize more than the foreign market price, but the Cubans have been unable to do so under existing conditions.

Another factor in the demoralization of trade is the state of unrest and political and social disorder existing in so many countries. China is an important country almost in a state of anarchy. India is wrought up by agitation over questions that have nothing to do with the right of an individual to make a living or manage his own affairs—proposals that mean nothing for the economic progress of the country—matters indeed which will all settle themselves very readily with the economic progress of the people. Agitation of a similarly futile character, even though not of like violence, exerts a disorganizing and confusing influence in all countries. Instead of laying emphasis upon the importance of order, cooperation and trade to effect an advantageous exchange of products and services, agitation is largely obstructive and disorganizing.

Diversity of Production a Stabilizing Influence

The world is making rapid progress in the science of production, which should result in greater and more stable prosperity, with especial benefits to the mass of people whose incomes in the past have restricted them to a scanty living. Experience has taught that increasing powers of production are naturally applied to an increasing diversity of production, thus developing an ever-widening system of exchanges instead of an ever-increasing intensity of competition. The world is obsessed on the subject of rivalry and competition, instead of thinking of cooperative trade. One hundred years ago, 75 per cent or more of the population of this country had to be on the land in order with the hand tools of that day to supply a sufficient quantity of farm products, but today less than 25 per cent of the population is able to supply the farm products and 75 per cent may be engaged in other occupations which minister to the common comfort and welfare. These new occupations enlarge the circle of trade, the people in them exchanging services with each other and with the farmers, enabled to do so and to enjoy the higher standard of living by reason of the increasing power and greater diversification of industry.

Call the roll of the new industries of the last generation and note the new services in the trade circle: The electrical industries and their services, the automobile industry, the radio, the aeroplane, to name only a few outstanding ones, all made possible by the progress of industry and the release of labor from the production of the bare necessities.

The over-production of the world today is in crude products. Apparently productive capacity is engaged too largely upon these and insufficiently upon the production of the finished goods ready for consumption. It cannot be said that the people have all the goods of the latter class they want. The development of installment buying is a convincing demonstration that many persons have wants unsatisfied, and is it not a matter of common knowledge that this is uniformly the case. Would there be any slack season in the house-building or home furnishing industries if every family could have what it wanted in these lines?

It will be said, of course, that slack trade is due to inability on the part of would-be consumers to buy, but since our wants are supplied by a combined system of industry and trade, the purchasing power of consumers exists in their own powers of production, and the latter should set the only limitation upon consumption. In other words, there never would be any unemployment if the industries were in proper relations to each other and trade was functioning properly.

The declining percentage of population on the farms and the growth of the other industries in the last one hundred years illustrate the economic law of the distribution of population to conform with industrial progress. As production per worker on the farms has increased, by the invention of machinery and otherwise, the proportion of the whole population required on the farms was lessened, and the prices of farm products tended to fall, thus inducing the surplus workers to seek other employment and affording the labor for the expansion of other industries. The movement never has been rapid enough to maintain the "equality between agriculture and the other industries" which it is now solemnly declared to be one of the duties of the government to maintain. If the science of political agitation and organization had been as highly developed in the simple days of the past as now, the movement might have been still more retarded, and the reader may attempt to picture what would have been the effects of trying by legislation to keep 75 per cent of the population on the farms!

The truth is that even today there are too many people on the farms for their own good or for a well-balanced economic situation. If still more of these were transferred to other industries, and the remaining farms were all equipped with the best machinery and methods, the market for farm products and the market for other products would both be better than they are today.

In short, the industrial system is not in equilibrium, the supply of crude products being in excess of the supply of finished products,

with the result that the producers of the former are too poorly paid to take their proper share of the latter.

Other Features of the Situation

This is a broad statement of the general situation, and it might be amplified in many respects. The state of inequality—or of unbalanced relations—between the industries is aggravated by a lack of flexibility or adaptability throughout the organization. The prices of finished products at retail do not fall as quickly as the prices of crude products at wholesale, for one reason because so many additional costs enter into the finished goods, such as manufacturing costs, transportation costs, distribution costs, etc., all consisting mainly of labor. It is a familiar fact that wages or salaries once raised cannot be readily reduced. The London "Statist" recently published an article devoted to what it called the lag of retail prices, in which it set forth that within the past year wholesale prices in Great Britain had fallen by 8.9 per cent and the cost of living by ½ of 1 per cent; also that in France in the same period wholesale prices had fallen 10.9 per cent while retail prices had risen 1.9 per cent. Such variations certainly disturb the regular flow of trade.

All boom periods have a tendency to create unbalanced conditions. The building industry is notoriously subject to great fluctuations in activity, and just now is a center of interest because it reports more unemployment than any other industry. It was held in check during the war and maintained a very high state of activity from 1922 to 1928.

An official of an important corporation which is in close relations with the building industry writes us as follows:

> May I bother you with one comment in respect to your Letter on economic conditions and particularly concerning the building industry? In your March Letter you said that this industry "is known to be subject to wide fluctuations." My observations over a period of years indicate that this tendency cannot be emphasized too strongly as a most important factor in business conditions. Reading behind the quoted statement, moreover, and, to enliven the picture, substituting the word "spasms" for the word "fluctuations," we all have seen for many years what appears to be frantic over-building followed by a panic of under-building. This applies in particular to the building of houses and apartments for residence purposes, and to some extent also to buildings for offices, stores, or lofts. The industry seems to have no sense of proportion. It cannot be said that its way ever has an even tenor. This is an unhealthy condition constantly recurring. In it are the seeds of labor trouble, unemployment, and discontent. It is fertile soil of even worse conditions in these days.

The activity in building for a period of about six years developed many abnormal conditions the aggregate influence of which produced a great increase of costs with resulting high rentals. The entire tenement district of New York City ought to be rebuilt with modern apartments, but with building costs as they are, such apartments cannot be provided at rentals which tenants of moderate incomes can afford to pay. That similar conditions exist elsewhere is indicated by the report of the American Federation of Labor that 40 per cent of the building trades membership is now unemployed. Building trades wages have advanced since 1913 much more than the average of wages, but well-informed people say that the wages are not so serious a factor in building costs as the numerous arbitrary restrictions and charges which have developed in building operations. All such conditions, whether responsibility belongs to employers or employes, are detrimental to the general welfare.

Mass production must be accompanied by mass consumption, and consumption is accomplished by distribution in trade. All maladjustments and restrictions among the industries which put the crude products into final form for use, or which impede the natural flow in trade, evidently reduce consumption. Such conditions exist in greater or less degree even in times of prosperity, but when they become restrictive to an exceptional degree the entire organization slows down automatically until necessary readjustments are made.

Present Industrial Situation

Railroad traffic, bank debits and electric power production are the best general indices of business activity. In the first fifteen weeks of 1930, to April 12, total car loadings of freight aggregated 13,089,249 cars, against 14,084,905 cars in the corresponding weeks of 1929 and 13,624,207 in 1928, a decline of 7.1 per cent from 1929 and 3.9 per cent from 1928. In the first two weeks of April the decline from the corresponding weeks of last year was 5.8 per cent. The ton-mileage of freight handled by the roads in the first two months of the year was 8.1 per cent less than in those months of 1929, and the first 46 roads to report March earnings had a decline in gross of 13 per cent and in net of 39 per cent. Sales of electric power are about 9 per cent under last year, and bank debits in April have been lower than last year by 13 to 16 per cent. The latter are affected by fluctuating activity in speculation.

The lateness of Easter is agreed to have been a factor in the quiet trade of March and weather conditions in April were unfavorable. Department store sales in March as reported to the Federal Reserve Board were 13 per cent under March of last year, but general opinion among merchants is that retail trade in the two months has been under the volume of last year. The reports of mail order houses and chain stores support this conclusion, but lower prices are a factor in the totals.

Prices on the whole have shown little or no improvement in the last month. Although

some recoveries have occurred a rather formidable list of commodities has touched new low figures for the year. Among the more important of the latter are wheat, copper, zinc, tin, silk, cocoa, and sugar. Wheat has been affected by rains which are understood to have effectively broken the drought, sugar by the dissolution of control in Cuba, and silk by the heavy stocks in Japan. Copper had been held firmly throughout the general decline to April 15 at 18 cents per pound, but on that date dropped to 14 cents. The Bureau of Labor index for a list of over 500 commodities, based on average wholesale prices in 1926, was 90.8 for March against 92.1 for February and 97.5 for March, 1929.

The March output of automobiles and trucks, 401,378 cars, was the largest since last September, but compares with 585,455 in March, 1929. Touring cars were down 34.5 per cent and trucks only 8.3 per cent. It should be understood, however, that sales have been considerably larger in proportion to production than usual in the first quarter, as manufacturers and dealers were overstocked last Fall, and have been resolutely cleaning house.

The Steel Industry

The iron and steel industry is making a good showing, better than might be expected in view of the general situation. At the annual meeting of the United States Steel Corporation, held on April 21, Mr. James A. Farrell, President, stated that the plants of the corporation were operated at an average of 82 per cent of their capacity during the first quarter of this calendar year, that he thought this rate would be maintained through the second quarter and that the management was looking for a good average year.

One of the most significant incidents of the meeting was an announcement by Mr. Taylor that the budget for improvements to plant and structures in 1930 amounts to $200,000,000. This represents an increase of $75,000,000 over the announcement of plans last December, and is indubitable evidence of the management's view of the country's future demands on the steel industry.

The other steel companies all did well in the first quarter, even though not quite up to the record-breaking 1929 figures. Bethlehem Steel operated at an average of 80.8 per cent of capacity, against 91.8 per cent in the first quarter of 1929. The newly organized Republic Steel Corporation, formed by a consolidation of the old Republic and several other important steel companies, sold $60,000,000 of cumulative preferred and convertible 6 per cent stock during the past month for improvement purposes. Other steel producers are spending money freely for like purposes. All are out to at least maintain and if possible increase their share of the increasing volume of business which they confidently anticipate.

Building and Construction

Building operations and construction work made an excellent showing in March, contracts actually awarded rising in the aggregate to within 5 per cent of the aggregate in March, 1929. The daily average of contracts, based on 26 days, and classified between residential, non-residential, and public works and utilities, as reported for 37 states by the Dodge Company, March 1930, February, 1930 and March, 1929, was as follows:

DAILY AVERAGE OF CONTRACTS

	Month of Mar., 1930	Month of Feb., 1930	Month of Mar., 1929
37 States:			
Residential	$ 3,903,500	$ 2,875,500	$ 7,573,500
Non-Residential....	9,703,000	6,017,900	8,314,100
Pub. Wks. & Util.	4,051,900	3,300,900	2,750,300
Total....................	$17,658,400	$12,194,300	$18,637,900

It will be seen that the residential class is much below the other two classes. The figures for public works and utilities reflect the efforts of President Hoover's business men's committees and conferences, March, 1930, showing far ahead of March, 1929. The total of contracts for public construction in the first three months of the year, aggregated $303,000,000, and exceeded the total for any other year from 1925 to 1928 inclusive. The same influence may be assumed to have been effective in the increase of the non-residential class in March, and there is assurance that its good effects will continue to be apparent.

The Engineering News-Record reports the total of heavy construction and engineering awards announced throughout the country from January 1 to the end of the third week of April aggregated $1,160,688,000, which compares with $1,438,115,000 in the corresponding period of last year, a decline of about 19 per cent.

The Textile Industries

The textile fibers are all depressed in price, wool and silk to the pre-war levels and cotton to figures that have seldom ruled since the war. The weakness and downward tendency of the raw materials has placed manufacturers of goods in a very uncertain position and caused merchants to practice hand-to-mouth buying to the limit of a practicable policy.

In cotton goods the trouble seems to be not so much in a declining volume of business as in excess capacity and the inclination of producers to run full for the sake of the lower costs thus obtained. The National Association of Cotton Manufacturers in a review of the industry issued last month says that the manufacturing margin as determined from the

average price of ten print cloths was 2.31 cents per pound less in the first quarter of 1930 than in the corresponding period of 1929.

The apparent helplessness of the industry in its present state of disorder is exhibited by the following table taken from the April 19 number of the Fairchild Textile-Apparel Analysis, showing the New York price of spot cotton on March 10 and April 17, and the prices of certain standard goods at the same dates. Although cotton had rallied 2.2 cents per pound between these dates, goods prices remained practically unchanged.

	April 17	March 10
N. Y. Spot Cotton	16.20	14.00
27-inch, 64x60, 7.60	4¼	4¼
28½-inch, 44x40, 8.20	4¼	4⅛
38½-inch, 60x48, 6.25	4⅞	5⅛
38½-inch, 64x60, 5.35	6	6
39-inch, 68x72, 4.75	6⅞	7
39-inch, 72x76, 4.25	8	8
39-inch, 80x80, 4.00	8⅝-¾	8¾

Hunter & Company show that the 38½ inch 64x60 print cloth selling upon both of these dates at 6 cents per yard, sold at 6½ cents in the bumper crop year 1926-27, when spot cotton sold down to 12.3 cents per pound, and at 6⅛ in the big deflation year 1920-21, with spot cotton at 11.6 cents per pound.

Much agitation has been in progress looking to concerted action among the cotton mill companies to reduce the hours of mill operations, and particularly for the abandonment of night operations, but nothing definite has come of it save an announcement that a number of companies, most of them in South Carolina, will suspend production entirely every other week in May, June and July. Undoubtedly there is general recognition that the cause of the depression is over-production.

The woolen goods industry is in much the same condition as the cotton goods industry, but has suffered more by inventory depreciation. Fairchild's Textile-Apparel Analysis argues that better business in woolens and worsteds may be expected in the Fall of 1930 on the ground that consumption of these goods has been below normal for several years. It says that production of men's woolen suits in 1929 was 3½ per cent under that of 1928 and in the first three months of 1930 was 20 per cent below that of the corresponding period of 1929.

First Quarter Profits

Corporation reports to stockholders covering the first quarter of 1930 that have been published during the past month have been studied with somewhat more than the usual interest because they represent the first really definite measure as to the effect of the business recession upon earnings. On the whole, the results of the first quarter are perhaps less unfavorable than might have been expected. The following tabulation of reports that have been issued to date of two hundred corporations engaged in a wide variety of different lines of business shows combined net profits this year of $293,333,000 as against $362,851,000 in the corresponding period of 1929, representing a decline of approximately $69,000,000 or 19 per cent. A count of the individual companies discloses that six out of ten had lower earnings in 1930 than in 1929, while four out of ten were lower than in 1928.

It must be remembered, however, that the early part of 1929 witnessed the highest earnings ever recorded, surpassing even those of the war years, and that the earnings of 1928 would be more normal for purposes of comparison. In the first quarter of that year, which also was above the average, the same identical companies had combined net profits of $280,139,000, from which this year shows an actual gain of approximately $13,000,000 or 4 per cent. In the case of mergers occurring in the past two years the earnings, if available, of the absorbed companies have been taken into account so as to make the figures comparable.

While the change in actual earnings of representative corporations from year to year provides an interesting and useful index as to the trend of conditions, a moderate increase is normally to be expected as a result of the growth in invested capital. Most concerns pay out only a portion of their current earnings in dividends, carrying the balance to surplus account, and their fixed capital is frequently enlarged by the offering of additional stock to shareholders. Last year many corporations, notably the two leading steel producers, altered their capital structure by calling bond issues for retirement from the proceeds of common stock subscriptions, thus saving interest charges and leaving a greater part of their gross profits available for dividends.

In measuring the profitableness of industry it is therefore highly important to consider not only the comparative earnings but also the large amounts of additional capital that are invested every year. On January 1, 1930, the balance sheets of the 200 companies included in our tabulation showed outstanding capital stock and surplus, commonly spoken of as net worth, aggregating $10,417,734,000 which was approximately $1,070,000,000 or 11 per cent larger than on January 1, 1929, and $2,180,000,000 or 19 per cent larger than on January 1, 1928. In relation to these figures, aggregate net profits in the first quarter of 1930 represented a return of 2.8 per cent on net worth, whereas the rate of return in the corresponding quarter of 1929 was 3.9 per cent and in 1928 was 3.2 per cent.

Railroads and public utility companies have not been included in our tabulation for the

FIRST QUARTER INDUSTRIAL CORPORATION PROFITS AND PERCENTAGE RETURN ON CAPITAL AND SURPLUS

No.	Industry	Net Profits (000's omitted) 1929	1930	Per Cent Change 1929-30	Capital & Surplus (000's omitted) Jan. 1, 1929	Jan. 1, 1930	Per Cent Return 1929	1930
4	Amusements	$ 7,115	$ 10,910	+53.3	$ 172,395	$ 215,400	4.1	5.1
14	Automobiles	90,987	53,004	—41.7	1,396,882	1,514,660	6.5	3.5
20	Auto Accessories	21,413	11,643	—45.6	245,895	299,040	8.7	3.9
6	Baking	8,998	7,939	—11.8	249,258	262,463	3.6	3.0
4	Building Materials	3,331	2,202	—33.9	95,959	106,640	3.5	2.1
12	Chemicals	41,708	33,210	—20.4	789,126	920,009	5.3	3.6
5	Coal Mining	1,420	595	—58.1	91,836	90,435	1.5	0.7
6	Electrical Equipment	22,166	21,097	— 4.8	613,151	699,876	3.6	3.0
15	Food Products—Misc.	22,931	24,323	+ 6.1	550,779	596,596	4.2	4.1
5	Household Supplies	1,306	1,623	+24.3	111,249	113,738	1.2	1.4
18	Iron and Steel	69,979	58,615	—16.2	2,752,607	3,132,980	2.5	1.9
12	Machinery	7,380	7,259	— 1.6	156,413	181,076	4.7	4.0
2	Merchandising	3,331	2,861	—14.1	86,331	92,525	3.9	3.1
6	Mining, non-ferrous	3,320	2,278	—31.4	90,758	105,325	3.6	2.2
4	Office Equipment	5,467	4,142	—24.2	110,662	116,147	4.9	3.6
5	Paper Products	1,164	1,583	+36.0	56,567	60,358	2.1	2.6
16	Petroleum	22,729	21,712	— 4.5	1,130,356	1,212,956	2.0	1.8
3	Printing and Pub.	6,641	7,512	+13.1	69,216	73,649	9.6	10.2
5	Railway Equipment	3,522	4,791	+36.0	124,373	140,599	2.8	3.4
3	Realty	2,709	2,367	—12.6	79,423	79,127	3.4	3.0
5	Restaurant Chains	1,540	1,553	+ 0.8	31,947	49,307	4.8	3.1
8	Textiles & Apparel	1,388	980	—29.4	52,946	56,633	2.6	1.7
2	Tobacco	596	410	—31.2	20,746	22,156	2.9	1.9
21	Miscellaneous	11,710	10,724	— 8.4	268,485	276,039	4.4	3.9
200	Total	$362,851	$293,333	—19.2	$9,347,360	$10,417,734	3.9	2.8

reason that the only available earnings data are on the basis of net operating income, after operating expenses but before deducting interest charges. Their showing naturally suffers by comparisons with last year but is not so far below 1928 and prior years. Following are the railroad figures for the first three months (March, 1930, partly estimated):

NET RAILWAY OPERATING INCOME OF 173 CLASS I RAILWAYS
(000's omitted)

	1928	1929	1930
Jan.	$56,562	$77,176	$55,474
Feb.	69,832	84,724	59,452
Mar.	90,876	97,466	59,000
Three months	$217,370	$259,542	$173,926

Net earnings of the ninety-five electric light and other leading public utility systems in the first quarter, with March partly estimated, were two per cent above 1929 and nineteen per cent above 1928. Profits of the American Telephone and Telegraph Company were practically the same as last year, while those of the telegraph companies were lower.

If the recovery in general business activity continues as the current year progresses, it is reasonable to look for the spread between 1929 and 1930 earnings of the railroads, public utilities and industrials generally to diminish in the second and third quarters, and in the fourth quarter to change into a substantial gain as compared with the same period in 1929, which was a very unsatisfactory one. These first quarter statements probably present the business situation at its worst.

Money and Banking

The past month has witnessed no very significant change in the money market. Money has been easy, but there has been no repetition of the surfeit that followed Government public debt disbursements in March.

Total discounts of the Federal reserve banks on April 23 were $211,000,000, practically the same as at the end of March and the lowest since 1917, excepting only January 21, 1925. For New York City member banks alone borrowing showed the negligible total of $10,000,000 against $177,000,000 a year ago. Including bills bought in the open market and Government security holdings, total reserve credit outstanding for the System, amounting to approximately $1,000,000,000, was likewise unchanged since a month previous.

Four of the regional reserve banks—to wit, —Richmond, St. Louis, Atlanta, and Minneapolis, reduced their rates of discount from 4½ to 4 per cent during the month, bringing all reserve banks in line at the latter rate with

the exception of New York where a 3½ per cent rate has prevailed since March 14.

Open market money rates were generally steady. Call money renewed uniformly at 4 per cent during the month, with frequent reductions to 3½ per cent after opening trades. Time money turned a shade firmer, being quoted at 4-4¼ for 60-90 day against 3½-4 at the low last month, while 90-day bankers' acceptances were marked up to 2⅞ per cent against a March low of 2½. Excepting the few days of abnormal ease in March, these rates are the lowest since 1924. Commercial paper was unchanged at 3¾-4.

At the weekly reporting member banks the principal feature has been the decline in unsecured loans, generally considered representative of commercial borrowings. Total of such loans on April 23 was down to $8,629,000,000 compared with $8,702,000,000 on March 26 and $9,052,000,000 on April 24 last year. Investments, on the other hand, were up $69,000,000 during the month to the highest since last May. Loans on securities, which during March advanced $543,000,000, increased an additional $140,000,000 during April to the highest since November.

Gold movements during the month consisted of the receipt of $54,000,000, bringing the net import for the year to date to $173,000,000. Of the April movement, $35,000,000 alone came from Brazil. In addition to these shipments, Federal reserve reports indicate a release during the period of $15,500,000 gold earmarked for foreign account, thus making the net gain in monetary stocks $189,000,000.

The Trend Abroad

The wave of foreign discount reductions subsided somewhat in April. However, the following five central banks lowered their rates during the month:

April 2	Swedish Riksbank	4	to 3½	per cent
April 3	Swiss Natl. Bank	3½	to 3	" "
April 12	Natl. Bank of Jugoslavia	6	to 5½	" "
April 24	Bank of Italy	6½	to 6	" "
April 28	Bank of Finland	7	to 6½	" "

Open market rates in most Continental countries, with the exception of Germany, showed a tendency to harden. Day loans in Berlin dropped at about the middle of the month to 2½ and three month bills are now quoted at 4⅜, considerably out of line with the current Reichsbank rate of 5 per cent.

The Bond Market

In contrast to the marked display of strength during March, the bond market in April has been relatively dull and irregular. Bond prices have shown a gradually sagging tendency due to a moderate accumulation of undigested issues in the hands of dealers. The present situation is probably best described as a temporary state of congestion due to the heavy volume of bond offerings since the first of the year.

How large this volume of new financing has been is shown by a recent compilation of the Commercial and Financial Chronicle. According to these figures, new bond issues floated in the United States during the first three months of 1930 reached a total of $1,867,000,000. This figure is more than $550,000,000 greater than the total of $1,309,000,000 for the first quarter of 1929, and only slightly less than the record volume of $2,085,000,000 attained during the first quarter of 1928. It is, therefore, not surprising that the market has been unable to absorb this volume at steadily advancing prices.

The present state of congestion did not become evident until the decline in interest rates was halted late in March. Prior to that time, it is now clear, speculative buying on the part of dealers was an important factor in the bidding up of prices and the rapid disappearance of new issues.

Despite the recent set-back to prices, there is still a strong undercurrent of confidence regarding the longer term outlook for the bond market. This confidence is based primarily upon the belief that interest rates are likely to remain relatively low for many months. As a reflection of the underlying confidence it is interesting to note that the total security holdings of the weekly reporting member banks of the Federal Reserve system have increased by more than $280,000,000 from the low point of the current year and are greater than at any time since May, 1929. The steady increase in holdings during April, despite unsettled market conditions, indicates that bankers throughout the country are generally optimistic regarding the bond outlook and that new issues are passing steadily out of the hands of dealers.

Another indication of confidence is the fact that the weakness of prices has caused little diminution during April in the volume of new bond issues. According to the compilation by the New York Journal of Commerce, bond offerings for the month through April 28th totalled approximately $534,000,000 against a total of $654,000,000 for the month of March. Foreign issues in the amount of $128,000,000 comprised the largest single item of this figure. A feature of the foreign offerings has been the appearance for the first time this year of several large South American issues, including a $50,000,000 issue by the Government of the Argentine Nation, a $25,000,000 issue by the Republic of Chile, and a $35,000,000 Coffee Realization Loan by the State of San Paulo, Brazil. Further large offerings in the United States by Latin American countries are anticipated in the near future.

Great Britain's Problems

Except for the brief post-war boom which ended in the latter part of 1920 the principal export industries of Great Britain have been in serious difficulties. Wages, in terms of the country's currency, had been approximately doubled while the currency was below the gold parity and restoration to parity effected an increase of real wages. On the Continent, however, currency depreciation confused the relation of wages to real values and the currencies of Belgium, France and Italy were not restored to the gold parity. Wages were higher in England than on the Continent before the war, but the difference was less than since the war. Furthermore, the inability of Great Britain to care for her export business during the war stimulated a growth of competition in former customer-countries, with which British industry has had to contend.

In what are known as the "sheltered" industries, (which are not engaged in foreign trade and do not feel the direct pressure of foreign competition) the wage-earners have quite successfully resisted efforts to reduce money wages to correspond with the decline of the cost of living, a fact which has kept industrial costs upon a high level, thus handicapping the export industries. Much is written and said about the advantages to industry of high wages over low wages, on account of the increased purchasing power thus distributed to the workers, but in practical affairs, wage rates may be raised so high that there are no wages, or that employment is so reduced that the amount of purchasing power placed in circulation is less than might be with lower wage rates and more employment.

The effect of the conditions existing in Great Britain has been to weaken the competitive power of the country and cause unemployment on a large scale, with serious results to the public treasury under the system of unemployment insurance. It is generally agreed also that the old lines of British industry which were once the strength of the country are more or less in need of reorganization and modernization, but since this policy means the adoption of labor-saving methods, it has encountered opposition from organized labor. An instance appears in the case of efforts to introduce the automatic loom system in the textile industry, England's most important export industry. Automatic looms are used very successfully in the United States.

The Labor Government

Last May a general election was held, and the Labor party, led by Ramsay MacDonald, a man of character and intellect, appealed for an opportunity to show what it could do in handling the unemployment problem, and in a three-cornered contest between it and the two old parties—Conservative and Liberal—the Labor party secured a plurality, and came into power. James H. Thomas, for a long time head of the railway unions, was made a member of the Cabinet and charged with the unemployment problem. Undoubtedly he has labored upon it with great zeal and sincerity. He made a trip to Canada in an attempt to work out a barter of coal for wheat on a large scale, but the regular business organization has long since improved upon the system of barter. He was more successful in devising smaller schemes for employing labor upon public improvements, but they were of small consequence compared with the magnitude of the problem. The number of unemployed, instead of being reduced, has increased until at present the number of persons on the unemployed insurance roll is the largest in eight years.

The Labor party, of course, had made pledges to enact certain labor legislation, among them one to reduce the legal hours of labor in the coal mines and to provide a remedy for the desperate state of unemployment in the mining industry. The remedy it has always proposed is State ownership, but not having a majority in Parliament it required the support of the Liberal party, which would not support State ownership. However, a bill was introduced providing for a reorganization of the industry under a large degree of public control. The country would be divided into coal districts, and the production and sale of coal in each district would be under the management of a Board having important powers. To restrain the severe competition which has been forcing down wages, a quota of production would be assigned to each mine and a minimum price fixed upon coal. Not to make the system too inflexible these quotas would be transferable, also the amalgamation of properties would be compulsory under the authority of the Board. Furthermore, the price of coal could be varied to suit what might seem to be the exigencies of the industries, qualified by consideration for the public interest. Thus coal might be sold for export to competitive markets at a lower price than to home consumers, but there might also be discrimination among home consumers, for instance in favor of industries producing for export, etc. On the whole, the measure contemplates a highly artificial system.

This was more than the Liberal party was ready to endorse, and no little friction over it developed within the party. One vote, upon a minor phase of the bill, showed a majority against the measure. However, the Liberal party was not ready to overthrow the MacDonald ministry, particularly in the midst of the naval conference and thus far has not withdrawn its support. The final outcome on the bill is not yet determined.

Another pre-election pledge was to pass a bill reducing the permitted number of hours of labor in coal mines from 8 to 7½. This is opposed by the mine-owners on the ground that it will raise costs and make competition in foreign markets still more difficult. The mine-owners, to the extent of about 90 per cent of the productive capacity, are opposed to the bill in toto.

Higher Taxation

With unemployment increasing, more money was needed for the insurance fund, and the Labor party also felt under obligations to liberalize the terms of relief, somewhat as the Congress of the United States is just now liberalizing the pension provisions for war veterans. Ten million pounds, or approximately $50,000,000, additional money, was placed at the disposal of the unemployment fund. The fiscal year ended March 31 last resulted in a deficit of about $70,000,000 and the Chancellor of the Exchequer has budgeted for an increase of £42,000,000 (approximately $200,000,000) in expenditures in the ensuing year. About three-quarters of this is to be provided by increases in the income tax and death duties. A small increase is made in the beer tax, but the Chancellor has given assurance that this "will not affect either the price or strength of beer." The standard rate on income, 4 shillings to the pound (20 per cent), is raised by ½ a shilling, and the surtaxes on incomes above £2,000 are raised on a graduated scale to 7 shillings 6 pence on incomes above £50,000. Including the standard income tax the total rate on the highest bracket of incomes is 12 shillings in the pound, or 60 per cent.

The Chancellor's comment upon the increase is summed up by him briefly as follows:

> The new taxation was unavoidable, and I have put the burden only upon those who are best able to bear it. I have placed no direct burden upon industry. I have put it only on those people who have more than the mere necessities of life. I only asked to contribute more those people who have more than reasonable luxuries and amenities.

This is the plausible reason usually offered for high taxation of the rich; the opposing consideration is that the policy takes from income which is very largely available for industrial development. This consideration is the more important in view of the needs of British industry for large capital expenditures for modernization.

In view of the fact that the Premier, Mr. MacDonald, and the Chancellor of the Exchequer, Mr. Snowden, are avowed socialists, and leaders of a party which is committed to socialism, the provisions of the budget need not be regarded as surprising. It is to be said that while Mr. Snowden followed the policy, as he has said, of going for money where he knew he could get it, he adheres to the sound principle that money for governmental purposes must be raised by taxation and not by any illusive scheme of credit inflation. Moreover, he does not attack the banking system, although sponsoring a general inquiry into the relations of banking to industry, by a committee upon which bankers and representative business men and labor leaders and economists are members.

Cooperation for Industrial Reorganization

Furthermore, it is to be said that the ministry and the bankers are collaborating in a very important movement for the rehabilitation of the British industries which are in need of help at this time. Before the Labor Government came into power, Mr. Norman, Governor of the Bank of England, had interested himself in a study of the cotton goods industry which resulted in the organization of a new corporation under the name of the Lancashire Cotton Corporation, for the amalgamation of as many as might prove feasible of the cotton mill companies. Sir Herbert Samuel, one of the leaders of the Liberal party, in a recent speech explaining the need for reorganization, stated that four firms produce 40 per cent of the cotton goods manufactures in Japan and that 70 to 80 per cent of the cotton goods exported from Japan are handled by three or four firms, while there are 1,800 cotton spinning and weaving firms in Lancashire and 700 or 800 exporting merchants.

A New Financing Corporation

The Lancashire Cotton Corporation has acquired 70 important mills, and is proceeding with its program of amalgamation. Out of this effort has developed larger plans, described in the quotation below. Mr. Thomas, of the ministry, whose relations with organized labor are such as to make him a very important factor in such a movement, has entered heartily into the plans. Obviously the willing cooperation of organized labor is a fundamental requisite. We take the following account from the financial page of the London Times of April 16, 1930:

> Mr. Thomas announced in the House of Commons yesterday the registration of a new company, formed under the highest financial auspices, which it is hoped will play a not inconsiderable part in the rationalization of the basic industries of the country. The terms of the announcement are published in another column, from which it will be seen that the company will bear the name of the Bankers Industrial Development Company, that it will have the support of practically the whole of the banking and financial community, that the directorate will work without fees, and that the company will work without profit. In other words, it will be a public-service corporation of a semi-philanthropic nature, but, of course, it is hoped to cover expenses. The Governor of the Bank of England, Mr. Montagu Norman, will be the chairman, and the other members of the board will be Sir Guy Granet (who will also act as alternate to Mr. Norman), Baron Bruno Schroder, Mr.

A. R. Wagg, Mr. E. R. Peacock, and Mr. Bruce-Gardner, managing director of the Securities Management Trust. It should be clearly understood that the new company will in no way compete with any existing banking or financial institution.

"The object of the company," according to the official statement, "is to receive and consider schemes submitted by the basic industries of this country for the purpose of their rationalization, either by industries or by regions. In the case of schemes which may be approved, arrangements will be made for the provision in one way or another and through existing agencies of such moneys as may seem to be essential."

Its Chief Function

The new organization will fill a real need. The basic industries are those which have suffered most from the industrial revolution that has occurred since 1914, and their need for rationalization is therefore the greatest. It is a fact to be regretted that the basic industries have been very slow to undertake reconstruction cooperatively, but it is only fair to admit that their desperate plight has made the work extremely difficult. This process involves not only the writing off of lost capital—the simplest part of the operation—but also the provision of new. Obviously, only investors with the very strongest stomachs and the hardest nerves could be expected to provide fresh capital for devastated industries. This difficulty it is hoped the new company will remove, for provided schemes are considered sound the new company will act as a very influential godfather in securing the necessary financial assistance that may be required until the reconstructed industries are strong enough to appeal to the investor direct. The new company will not, in the ordinary way, finance the reconstruction of individual companies, but only groups of companies.

Trends in Merchandising

Conditions in the field of retailing have been made somewhat more difficult because of the curtailed activity of general business during the past several months and the consequent decreased purchasing power of the public. Some of the chain store companies have expanded too rapidly and have been forced to suspend their programs of opening new stores. In addition, the decline of commodity prices may necessitate some writing-down of inventories, and the usual margin of profit at a lower price level will mean smaller net profits, unless it can be offset by an expansion in sales. Retail prices tend to lag behind wholesale prices, on either an upward or downward movement, but the promptness with which the cost of living can be readjusted downward to correspond with the lower level of raw materials is always an important factor in restoring the normal volume of trade. Some retailers have passed the lower prices along to consumers; others have not. Competition has been intensified throughout the field of retailing, including the large department store, chain store and mail order organizations as well as the large and small individual merchants.

Some of the latter fear that it is only a matter of time until the great chain store system will drive every "independent" out of business, leaving the distribution of the country's foodstuffs and other necessities in the hands of a few large companies, and in several states the agitation against chain stores has now brought proposed legislation to curb their expansion by imposing special taxes. Considering the breadth and complexity of the merchandising field, it is not surprising that the rather unusual number of problems existing at the present time should confuse the outlook and lead in some instances to wrong interpretation of the actual figures on sales, profits, etc., and even to misunderstanding as to the economic principles involved.

There is reason to believe that the average person has an exaggerated view as to the growth of the large merchandising corporations due to the manner in which the sales and earnings figures are usually presented, showing as a rule a substantial and steady gain as compared with the corresponding period of the previous year, but not taking into account how much of the increase is due to additional stores established or acquired through merger. Taking merely the reported figures by individual companies or by groups, a comparison with prior years would give the impression that these large organizations were expanding at a rate far above the normal for the country as a whole, and one might conclude that in time they will dominate the entire trade.

For example, a tabulation, as usually presented, of the sales of chain stores and mail order houses for the last two years, taken from published stockholders' reports, shows the following combined totals:

CHAIN STORE AND MAIL ORDER SALES
(000's omitted)

	Fiscal Year 1928	Fiscal Year 1929	Per Cent Change
67 companies......	$3,513,402	$4,149,753	+18.1

A gain in sales of 18 per cent in the year 1929 over 1928 would seem exceptionally high in view of the fact that business conditions were depressed during November and December, and that the normal growth in American retail trade over a period of years averages only around 5 per cent. As a matter of fact, however, the representative chains did not show anywhere near this rate of increase and tend to slow down their rate of expansion as they grow larger. It is the small chains that are opening new stores most rapidly and thus showing large increases in sales, also the mail order houses that in the last two years have established several hundred branches. If the tabulation were divided into several groups according to size, also segregating the mail order houses and the companies that have

participated in important mergers, the sales picture would be as follows:

SALES CLASSIFIED ACCORDING TO SIZE
(000's omitted)

	Fiscal Year 1928	Fiscal Year 1929	Per Cent Change
Over $50,000,000 annually			
8 companies	$1,928,127	$2,090,657	+ 8.4
$10,000,000 to $50,000,000			
21 companies	385,916	449,662	+16.5
Under $10,000,000 annually			
24 companies	82,081	97,560	+18.8
Merged Chains			
8 companies	467,741	698,747	+49.4
Mail Order			
6 companies	649,537	813,127	+25.2
Total 67 companies	$3,513,402	$4,149,753	+18.1

This shows that the large and representative chains, which do a volume of $50,000,000 or more annually, increased their 1929 sales over 1928 by only 8 per cent, and not by 18 per cent, as might appear from tabulations that include the smaller chains, mergers, etc.

In the matter of profits, a similar misunderstanding is created by the manner in which the figures are usually presented. Our analysis of published corporation reports for 1929 of 58 chain store systems, but not including mail order houses, shows combined net profits, after all charges available for dividends or to carry to surplus, as follows:

CHAIN STORE PROFITS
(000's omitted)

	Fiscal year 1928	Fiscal year 1929	Per Cent Change
58 companies	$143,046	$152,343	+6.5

This shows an increase of $9,000,000 or 6.5 per cent, which is much less than the grand total of all other industries, which in 1929 increased 17 per cent over 1928. Whenever mergers occurred, the prior years' profits of the absorbed concerns were taken into account so as to make the figures comparable. Average net profit amounted to 4.07 cents on each dollar of sales in 1928 and to 3.67 cents in 1929.

It must be kept in mind that some increase in earnings is to be expected as a result of the new capital that is invested in the business through sale of additional stock or earnings retained in surplus account. Combined capital and surplus of the chain store groups at the beginning of the two years, and the percentage of profits thereon was as follows:

NET PROFITS RETURN ON CAPITAL AND SURPLUS
58 Chain Stores

Fiscal Year	Capital and Surplus (000's omitted)	Per Cent Return
1928	$639,394	22.4
1929	773,502	19.7

Although $134,000,000 of additional capital was in use during 1929 as compared with 1928, the return decreased from 22.4 to 19.7 per cent. If the net worth at the end of the year instead of at the beginning were used, so as to allow for additional capital in use for a portion of the year, the percentage return would be slightly less, and it is important to note also that the net worth at book value is much less than at market value of the shares, since most chain store organizations carry on their balance sheets only tangible assets, with no valuation for goodwill that has been built up over long periods and adds greatly to earning power.

Corresponding figures for the mail order companies, department stores and wholesale and commission houses are given below. The tabulations include all available reports published to date for merchandising concerns, the major portion of whose business falls within the 1929 calendar year. It contains the reports of a considerable number of large department stores that closed their fiscal year January 31 and were not available at the time our general summary of business profits was issued last month.

NET PROFITS RETURN ON CAPITAL AND SURPLUS
Merchandising, Other Than Chain Stores

	Capital & Surplus (000's omitted)	Net Profits (000's omitted)	Per Cent Return
6 Mail Order Houses			
1928	$246,687	$49,247	20.0
1929	312,184	44,930	14.4
44 Department Stores			
1928	647,095	69,927	10.8
1929	681,408	65,869	9.7
13 Wholesale, etc.			
1928	98,647	7,641	7.7
1929	101,085	7,095	7.0

The gains of chain stores as a group have not been uniformly distributed among the various lines such as groceries, drugs, etc. Although space does not permit our discussing each one separately, we are presenting below a classification of sales and profits based on the 1929 reports (excluding merged chains and mail order houses) with the percentage change from the previous year.

CLASSIFICATION OF 1929 REPORTS, WITH PERCENTAGE CHANGE FROM 1928
(Merged Chains Excluded)

Number and Kind of Chain	Sales (in 000's)	Per Cent Change	Net Profits (in 000's)	Per Cent Change
14 Grocery	$1,477,077	+ 7.8	$40,802	+10.1
9 Five and Ten	666,658	+ 9.0	63,914	— 0.6
6 Shoes	65,079	+20.3	3,396	+ 8.5
8 Other Apparel	319,304	+20.7	17,814	+19.6
5 Drug	23,527	+29.8	979	—20.3
11 Miscellaneous	86,234	+10.8	3,694	—24.7

Future of the Chain Stores

As the above data have not been taken from a selected number of leading companies but embrace every concern whose published figures are available, the declining rate of profits return last year in each of the four major divisions of merchandising would appear to

show rather conclusively that the large organizations are by no means having it all their own way. The constant evolution of merchandising methods and the increase of competition naturally affects all merchants to some extent, be they large or small.

Competition among the chains themselves has reached a point where, in many localities, further expansion of stores is accompanied by diminishing returns. The weapons of sales promotion that were so highly developed by the chains have been turned back upon themselves.

The almost phenomenal success of chains in recent years has attracted so much new capital into this type of business that it is not unusual to see half a dozen chains represented in a small town or village that not so long ago was served by only a few general stores. In the larger cities there are similar evidences of over-crowding.

Rentals for the choice chain store locations have been rising rather rapidly, and the advantage that the older established chains had through leases secured ten, fifteen or twenty years ago at low figures are fast disappearing as the leases expire and the property owners are willing to grant renewals only on the basis of present day real estate valuations.

Overhead in a chain system, particularly in a department store chain where the units are large, tends to increase faster than in a single independent store. Approximately half the staff of a great department store is not directly engaged in selling and must be kept intact whether business is active or dull. Supervision becomes constantly more difficult and costly as the units of a chain are spread out geographically through several states.

In the same way, advantages through centralized purchasing in large quantities may be offset to a considerable degree by the cost of maintaining warehouses and re-distributing in small quantities. Taking over this assembly function of the wholesaler does not always effect the savings that were anticipated, because for many years the margin of profit in the wholesale trade has been very narrow.

Despite these and other limitations on the expansion of chain stores, which tend to flatten the upward curve of their sales, there is no reason to doubt that well managed chains will hold their place in the system of distribution and continue to grow, but at a slower rate. The development of chains is a logical economic movement, and while in recent years it has proceeded rather rapidly along with the general movement toward consolidation, of which it is a part, it has been going on in this country ever since the first store of the Great Atlantic and Pacific Tea Company was established, nearly seventy years ago.

Beginning with groceries, the chain movement has spread to practically every retail line that could be named, but it has been found to be better adapted to merchandising standardized products than to high-priced articles, in which personal salesmanship is a large factor. In the food and provision business there are approximately 556,000 retail outlets, that in 1929 had total sales of approximately $21,000,000,000, according to a survey by The Progressive Grocer. Of this total, 7 billion was sold through independent grocery outlets, 2.9 billion through chain grocery stores, 3.6 billion through market and provision stores and 7.5 billion through restaurants, bakeries, confectionery stores, drug stores and miscellaneous outlets. Average annual sales of the 57,000 chain grocery stores were $53,000 and average sales of the 400,000 independent grocery outlets were $17,500. Among the independents, however, the largest 20 per cent were found to do 60 per cent of the business, and for every chain store in the United States there is an independent store with a larger volume. For every national grocery chain, there are, it may safely be said, a hundred local chains whose ownership and management is confined to a single community.

Chain stores have brought improved management, increased capital and geographical diversification into the country's retailing organization. The slight decrease in sales during the first quarter of the current year is the first set-back that they have ever experienced as a group, and many of the individual chains made actual increases. Cool weather has retarded sales in March and April, and last year the Easter business came in March, while this year it fell in April.

Inasmuch as the larger part, approximately 60 per cent, of retail trade comes in the second half of the year, the executives of chain store organizations may be amply justified in their expectations that improved business conditions in the Summer and Fall will make the year 1930 as a whole compare favorably with previous years. Fortified by strong cash resources and the adherence to scientific principles, the representative chain stores should come through this test all the better for their experience. There has been some disappointment on the part of holders of chain store stocks that they slumped so badly during the break and have recovered only slowly, but it must also be remembered that this group had one of the largest advances, and that there has been a drastic revision of opinion as to the proper ratio of selling price to earnings.

Future of the "Independents"

In considering the competition now going on between the chain stores and "independents" it is essential that one have a clear understand-

ing of the place of the retailer in our distributive system. "The retailer's true function," says one authority, "is that of serving as purchasing agent for his community; as such, he selects and carries the reserve supply of merchandise to meet the requirements of individual customers." Naturally the best purchasing agent is the one who buys goods of the type and quality desired, and at the lowest prices. To the extent that he succeeds in his rendering of this service will he win the competitive trade.

Mortality among retailers is high, and every year a large percentage of retailers fail or are forced to liquidate their businesses but according to the records of R. G. Dun & Company, the rate is no higher now than it was forty years ago. It would be desirable to reduce this mortality, but after all it must be kept in mind that the retailer exists to serve the community; the community does not exist to support the retailer regardless of his efficiency. Some of the small, unsuccessful retailers should never have gone into the business and would render an economic benefit by getting into some other kind of work for which they are better fitted. There are undoubtedly many more than are needed, and they make hardly enough for their own existence, increase operating costs of the wholesalers and are parasites on society.

In the past generation, the development of trade-marked products and national advertising have encouraged many people to go into retailing who are little more than "slot-machines," who stand behind a counter and reach down from the shelves the various products that are called for as a result of demand created by national advertising. They are not real merchants, for they do not know their goods and do not know merchandising methods.

Agitation Against Chain Stores

Agitation against chain store organizations by local merchants has taken the form of denunciation through newspapers and over the radio and has led to proposed legislation to levy a special tax on corporations having more than one place of business. A recent survey by "The Business Week" shows 260 towns and cities located in 16 states in which there are local or national organizations arrayed against the chain stores, and lists a considerable number of Senators, Congressmen and Governors as publicly hostile. We are informed that the organization of these anti-chain associations is still spreading very rapidly. Two principal objections are raised: first, that it is against public policy for the distribution of the nation's food supply to pass into the control of a few large groups, and second, that from the social point of view it is desirable that the local merchant should be preserved. Granted that both of these aims are justified, the inevitable competition between chains is already limiting their expansion, and the capable "independent" is no nearer extinction than he was twenty years ago.

It is also alleged that money spent in chain stores is taken out of the local community and sent to the large cities, some of it going to "Wall Street," but this argument loses force when it is realized that the money goes out of town for any purchases other than articles of strictly local manufacture. By the same reasoning it must be admitted that practically everything that New Yorkers buy sends money out of that city, since the foodstuffs, textiles, coal, automobiles, etc., all come from other parts of the country.

Even the net profit of the large merchandising corporations does not stay long in "Wall Street" or wherever the head office of the company happens to be located, but is redistributed in dividends or else reinvested in store properties that serve the people of the country at large. The stock of F. W. Woolworth Company, the largest 5 and 10 cent chain, which reported net profits in 1929 of $35,664,252 on sales of $303,033,894, is owned by over 25,000 investors representing forty-eight states and the District of Columbia. Its stores are grouped into geographical trade districts and all money collected from sales is kept in its own district and not sent to the executive offices in New York, except the relatively small amount declared as dividends, and this is immediately scattered throughout the country. This company has stated that it did not lend one dollar in the call money market last year and that its charter does not permit making any outside investments. Its funds can be used only in supplying capital for local stores and in replenishing merchandise.

For years it has been one of the most common of complaints that the costs of distribution are too high, that economies in this line have not kept pace with economies in production. A United States Census of Distribution is being taken this year for the first time in an effort to secure information which will aid in reducing the margin between what the producer receives and the consumer pays. It is claimed for chain stores that they are the most effective means to that end.

The Great Atlantic and Pacific Tea Company, pioneer of the chain stores, has just published its annual report for the year ended February 28, 1930, in which it shows sales of $1,053,692,882, on which it made a net profit of $26,219,681, representing only 2.49 cents on each dollar of sales. In other words, if each dollar's worth of goods had been sold for ninety-seven and one-half cents, the store would have made no profit but actually have

lost money. At the same time, the decline in wholesale prices was rapidly passed on to its customers, its retail prices on April 15, 1930, being 9 per cent below those of October 15, 1929, as shown by indexes based on forty of the most important grocery items, weighted in accordance with the percentage of the total grocery business which they represent.

If the managers of chain systems can convince the public that with a sound policy of management their stores are consistently passing the benefits of lower prices along to the consumer, they will win a great deal of popular favor thereby. It is often claimed that in a time of declining wholesale prices the retail merchants are very slow to make corresponding reductions in their own selling prices, thus retarding the general readjustment to a new level of prices upon which normal trade depends.

There is no need to ask if the independent can "survive." The better class of merchants all over the country are not only surviving but prospering. Large scale buying is no longer confined to the chain organizations, since hundreds of purchasing groups have been established to give the individual retailer the same advantages. Many wholesalers are taking a special interest in the independent retailer, and discontinuing the special discounts formerly given to chains. In some lines, notably groceries, the "Better Stores Campaigns" sponsored by retail and wholesale trade associations, have resulted in immediate sales increases of ten to fifty per cent with no increase in costs. A certain balance between independents and chains tends to be maintained by the action of numerous chain store managers going into business for themselves. They have learned all the methods of the chain, and as their own manager can be much more flexible in policies as regards prices, credit, delivery, etc. There is no need to glorify chain stores methods as invincible, and still less reason to fear the passing of the independent. Ideas of the progressive independents originally supplied practically all the principles of chain stores, which in turn have made better merchants of all.

Changes in Distribution

Nevertheless, it must be recognized by manufacturers, wholesalers, advertising agents, etc., and by bankers as well, that a revolutionary change is occurring in the field of distribution and that, in contrast to the past, when the chief emphasis was laid upon increasing production, the problem of the future is to find new buyers to match the more than ample manufacturing capacity found in nearly every major industry. It is not only an economic, but a social change. The consumer is being studied as never before, because in recent years his income has increased materially and he demands not merely the necessities of life but the luxuries.

Consumer demand is not only growing but is constantly shifting, and at a more rapid rate than ever before. If this fickle demand is to be successfully met, the producer must take into account certain fundamental changes that have occurred in conditions of living, such as the decrease in home ownership and increase in apartment dwelling, the tendency of families to move more frequently and to want lighter and less furniture, the transfer of household industries — laundering, baking, sewing, etc.—to outside corporations, the decrease of home life in favor of travel and outside recreations, and the general trend, because of the automobile, toward a "public on wheels," no longer dependent upon the small-town or neighborhood merchant but willing and able to drive almost daily for shopping or entertainment to the larger centers that in the old days were visited perhaps once a year.

Public education and higher standards of living have created many new wants, but at the same time created a consciousness of harmony and beauty in design and color combinations that must be catered to. Novelties are challenging the supremacy of staple patterns. The problems of business are no longer limited to the developing of natural resources, the organizing of labor and capital and the perfecting of manufacturing technique, but appear to be rapidly shifting to the study of markets, of family incomes and budgets, of popular styles and reasonable price ranges. It used to be said that whenever a manufacturer or retailer made a mistake in a matter of fashion he could dispose of the goods in the rural communities, but with the instantaneous spread of fashion news through magazines, radios and talking pictures, that convenient "dumping ground" for mistakes has disappeared.

FACTS

about the Ownership and Management of First Bank Stock Corporation Banks

IN 74 cities and towns of the Ninth Federal Reserve District are 100 financial institutions affiliated with the First Bank Stock Corporation. Nearly 17,000 stockholders own these institutions. Of that number only a scant 600 live outside the limits of the Ninth Federal Reserve District. The rest, or more than 96%, are residents of the territory served by the group.

Management of each unit of the group is in the hands of officers and directors who are residents of the community served. Intimately familiar with the needs of their communities, selected for their positions because of proven ability, these men are no mere figureheads. They are the actual managers of each bank, responsible for its success and its usefulness to the community.

It is worth pausing to consider that nearly 800 leading men of the 74 cities served are pooling their strength and ability to the end that their banks may give a greater measure of strength and security to their communities, and that the Ninth Federal Reserve District may have a sounder, more unified, more flexible financial structure.

Depositors in any bank affiliated with the First Bank Stock Corporation have the satisfaction of knowing that their bank is being made an important and dependable instrument for the development of *their own community.* The success and progress and development of the local bank, the community and the First Bank Stock Corporation depend on service to the home community first, last and all the time.

The First Bank Stock Corporation, owned by the people it serves, managed by men who have a share in its ownership, is making possible for its units a greater degree of usefulness and helpfulness in their own communities and providing the means to make permanent the type of management by which alone this broader service is possible.

FIRST NATIONAL GROUP

RESOURCES OVER $155,000,000

ST. ANTHONY FALLS OFFICE
East Hennepin at 4th Street

WEST BROADWAY OFFICE
West Broadway at Emerson

NORTH SIDE OFFICE
Washington at West Broadway

HENNEPIN STATE BANK
Washington at Hennepin

FIRST NATIONAL BANK
THE OLDEST BANK IN MINNEAPOLIS—ORGANIZED 1864

FIRST MINNEAPOLIS TRUST COMPANY
ORGANIZED 1888

FIRST SECURITIES CORPORATION

Affiliated with

MINNEHAHA NATIONAL BANK
27th Avenue South at Lake

PRODUCE STATE BANK
1st Avenue North at 57th Street

BLOOMINGTON-LAKE NATIONAL BANK
Bloomington at Lake